



DEPARTMENT OF THE ARMY
ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT
600 ARMY PENTAGON
WASHINGTON DC 20310-0600

REPLY TO
ATTENTION OF

DAIM-FD (405-45)

JUL 28 1999

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Interim Policy for Processing Capital Improvements to the Real Property Inventory

1. The purpose of this memorandum is to establish interim policy for the determination and posting of capital improvements to the real property inventory, procedures for the preparation of the DD Form 1354, Transfer and Acceptance of Military Real Property, and reporting procedures for construction-in-progress. Specific policy and procedures are defined at Enclosure 1. These are effective immediately and will remain in effect until the update of affected regulations can be made.

2. The policy and procedures described in Enclosure 1 are being included in the ongoing revision to AR 405-45, Inventory of Army Real Property and the draft DA PAM 405-45, Inventory of Army Real Property. Army Regulation 405-45 is currently being rewritten into an Army Regulation and a Department of the Army Pamphlet. Both of these documents were forwarded to the U.S. Army Publishing Command for printing on 21 July 99. Additionally, DA PAM 420-6, Directorate of Public Works Resource Management System, will be updated to reflect changes in work-related procedures.

3. At Enclosure 2 is a background paper that discusses the reasons for this interim policy. Of particular interest is the dollar threshold used to determine which capital improvements are entered into the real property inventory. The Army policy (as reflected in Encl 1) is for installations to record all capital improvements with a value of \$25,000 or higher. The capital improvement reporting threshold for the Defense Finance and Accounting Service (DFAS) is currently set at \$100,000. The Department of Defense (DoD), in coordination with the Government Accounting Office (GAO), is currently studying the question of whether to change the reporting threshold for capital improvements. By late summer of this year, DoD expects to have this question resolved. After the study is completed, our intent is to make both the installation real property and DFAS reporting thresholds the same. We will issue supplemental guidance to this memorandum to reflect DoD's and GAO's findings once they are published.



DAIM-FD

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4. Point of Contact for this action is Mr. David Purcell, DAIM-FDF-M, (703) 428-7613, David.Purcell@hqda.army.mil.

2 Encls



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SUBJECT: Interim Policy for Processing Capital Improvements to the Real Property Inventory

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CAPITALIZATION RULES:

Draft AR 405-45

2-11. Facility Maintenance, Repair, and Capital Improvement Projects.

a. All projects that are determined by the DPW Business Management Office and/or the project manager to be capital improvements will be capitalized on a separate voucher and recorded in the real property inventory if the cost of the work performed exceeds \$25,000. Capital improvements at lesser amounts may be capitalized at the installation's discretion. See DA PAM 420-11, Project Definition and Work Classification, for further guidance. See DA PAM 405-45 for a detailed discussion of Capital Improvements projects and appropriate definitions.

Draft DA PAM 405-45, Para 3-12 e:

3-12. The Chief Financial Officers Act (CFOA) of 1990.

a-d. No Change

e. ACSIM has determined the following Business Rules for processing CFO Act data within the DPW and for passing CFO Act data to DFAS. Installations will use their automated real property reporting system to electronically interface with the DoD Defense Property Accounting System (DPAS) to provide required data. Appendix D provides a flow chart to assist the DPW with the sequence of required activities. Specific rules are as follows:

1. Capital Improvement Determination: Projects considered to be capital improvements will be identified by the DPW Business Management Office and/or the project manager at the time a project is initiated. Prior to administrative approval, each repair work order will be evaluated to determine if it should be classified as a capital improvement for real property accounting purposes. An affirmative statement (e.g., "this project is/is not a capital improvement for real property accounting purposes.") should be appended to each repair work order. In general terms, All "L" work and certain "K" work as determined by the project manager will be considered as capital improvements. Capital improvement determination is the responsibility of the DPW Business Management Office in coordination with the project manager (as appropriate).

2. Construction-In-Progress (CIP): CIP is not currently supported in the DPAS interface. CIP is manually calculated and provided to the DPAS system by the DPW Resource Management staff. At a future time it is anticipated that in-house CIP will be tracked using an automated real property management system and passed to Defense Property Accounting System (DPAS) Interface Screen for projects designated as capital improvements. In any case, CIP for in-house projects is the responsibility of the DPW Business Management Office staff.

3. Preparation of the DD Form 1354, Transfer and Acceptance of Military Real Property.

a) MCA/OMA projects. A draft DD 1354 will be prepared by USACE during the design process and reviewed and approved by the DPW as part of the design document review process. The draft DD Form 1354 will be updated during construction, and the updated version will become the initial DD Form that will be signed jointly by the USACE district and the DPW at the joint inspection preceding beneficial occupancy of the MCA facility. USACE districts will remove the CIP from their accounting system after signature of this initial DD Form 1354. After financial closeout of the MCA project, a final DD Form 1354 will be prepared by the USACE district and sent to the DPW real property accountable officer for updating of the installation's real property inventory.

b) In-house projects. The DD 1354 will be prepared by the DPW Business Management Office and/or the project manager for all in-house projects.

4. Posting of Completed Work into the Real Property Inventory (RPI): The DD 1354 will be the official document used to adjust and/or to add new facilities to the RPI. DD 1354s will be provided to the DPW Real Property Office by the DPW Business Management Office.

5. Execution of the IFS to DPAS Interface Screen: The DPW Business Management Office is responsible for initiation of the DPAS interface. For each capital improvement project, a screen will be initiated upon completion of a project and receipt of (creation of for in-house projects) the project DD Form 1354. The DPW Business Management Office will enter related project and financial data. Once initiated, the DPAS Screen inputs will be accessed by the Real Property Section to enter related accountability data as part of the process of vouchering the capital improvement and recording the data in the real property inventory.

6. Posting of Capital Improvements to the RPI: The project manager and real property officer are responsible for posting all completed capital improvements to the RPI. A voucher will be prepared for posting with the pertinent data associated with the capital improvement and the physical inventory will be adjusted as appropriate. At the same time the associated DPAS record will be reviewed by the real property officer in order to fill in required real property related data.

DA PAM 405-45, Para 3-13 e:

3-13. Accountability of Capital Improvements

a. Proper recording of real property capital improvement costs is an essential aspect of compliance with the Chief Financial Officer's (CFO) Act. The CFO Act requires that capital increases and decreases for all Army real property be tracked from both a monetary and physical aspect, e.g., funds expended on capital improvements are to be tracked as well as the physical inventory on which the funds are expended. While the CFO Act data is derived from the automated accountable system of record, the correct data must first be recorded as stated in the subparagraphs below.

b. All acquisition/construction costs, to include the costs associated with engineering design, for new facilities will be capitalized at the actual amount reflected in the DD Form 1354 or other transfer documentation. Capitalization threshold procedures do not apply when:

1. Adding facilities to the inventory based on new construction.
2. When correcting the real property inventory by adding and/or adjusting individual facilities to correct identified errors.
3. In these cases the actual changes and associated costs must be entered for inventory accountability purposes.

c. Facility repair projects that are determined by the Director of Public Works (DPW) or the project manager to be capital improvements per AR 420-70, will be capitalized if the cost of the work performed exceeds \$25,000 (Note: the \$25,000 rule is for accountability purposes only. The intent is that any physical change valued at \$25,000 or more must be reflected in the physical inventory for accountability purposes. The capital improvement reporting threshold, as required by DFAS, is currently at \$100,000.). Capital improvements at lesser amounts may be capitalized at the installation's discretion. See DA PAM 420-11, Project Definition and Work Classification, for further guidance.

1. Examples of capital improvements include:

- a) Acquiring new items of real property.
- b) Making an improvement to an existing real property item, which materially increases its value or substantially extends its useful life.
- c) Making an improvement to an existing real property item, which increases its units of measure (UM), e.g., area or capacity.

2. Examples of repairs that are not considered as a capital improvement:

- a) Replacement in kind of any component of an item of real property, e.g., roof, floor, utility lines.
- b) Internal reconfiguration of a building, i.e., moving of partitions or equipment.
- c) Making an addition, alteration, improvement, rehabilitation, or replacement of fixed assets when they do not materially increase the capacity or operating efficiency of an asset.

3. When an accountable facility is:

- a) Demolished, a capital adjustment will be made for the current exact dollars and cents cost to the government of the facility.

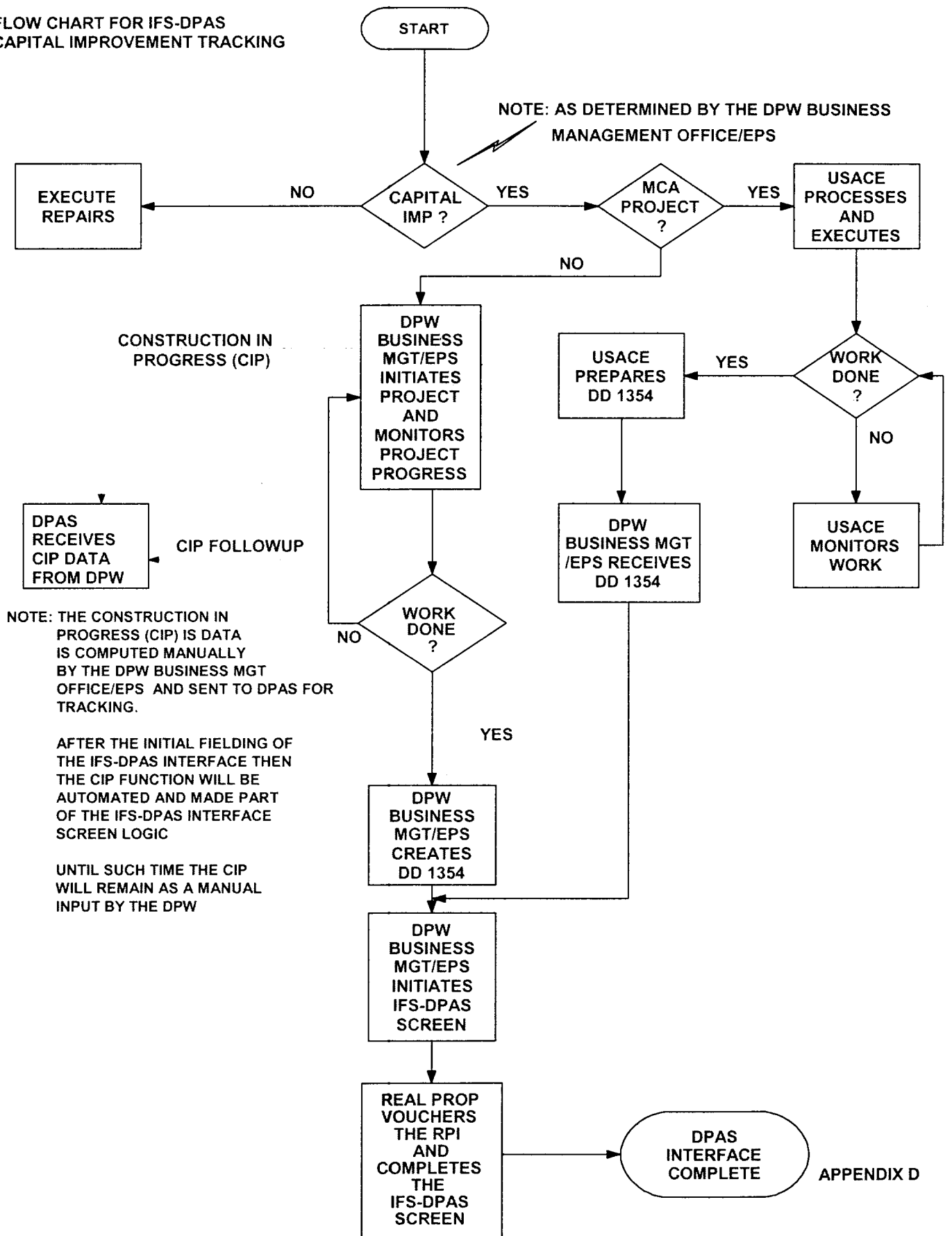
b) Corrected by an inventory adjustment, a capital adjustment will be made for the current exact dollars and cents cost to the government of the facility.

c) Transferred to the private sector, a capital adjustment will be made for the current exact dollars and cents cost to the government of the facility.

d. All reported capital adjustments will be documented with justifying remarks and also be identified as to the appropriate fund source.

e. For the purposes of reporting annual capital improvement costs to DFAS, the current Office of the Secretary of Defense (OSD) reporting threshold will be used. See DFAS IN 37-1.

FLOW CHART FOR IFS-DPAS
CAPITAL IMPROVEMENT TRACKING



BACKGROUND

1. Congress passed a law (PL 101-576) that requires the Federal Government to prepare annual financial statements that "balance the books" with regards to real property and the funds spent to either acquire them or to improve them within the context of a capital improvement. This public law is the Chief Financial Officer's Act or CFO Act for short. In order for the Army to comply with the CFO Act requirements several things about our facilities, at CATCODE level of detail, must be known as follows:

- a. When was a facility built and at what cost?
- b. What capital improvements have been applied to the facility, at what cost, and when?
- c. What current funded capital improvements are in progress for a facility (e.g., construction in progress)?

2. By knowing these data points it is then possible to calculate the present worth of an installation's facilities using standard, government approved, depreciation business rules. The Army has been tasked by the Department of Defense (DoD) to develop a reporting and tracking mechanism for FY99 that will allow for an "unqualified" (e.g., auditable) CFO Act report for FY99. The Army intends to accomplish this task by developing an interface between the Integrated Facility System (IFS) and the Defense Property Accounting System (DPAS) operated by the Defense Finance and Accounting Service (DFAS). DPAS has already been certified as compliant in CFO Act reporting by Government Accounting Office (GAO).

3. In order to support the IFS to DPAS interface, the ACSIM directed a review of current field business practices used to accomplish capital improvements at Army installations. This review was conducted during the period 22-26 February and 1-5 March 1999. Four installations were visited (Forts Meade, and Lee; Anniston Army Depot; and Redstone Arsenal). The findings and recommendations resulting from this field research provided a set of proposed business rules for all Army installations to use in recording and reporting their capital improvements in support of CFO Act reporting requirement. In addition, standard procedures for preparation of the DD Form 1354 and reporting procedures for construction-in-progress were developed and will also be included in the revised AR405-45 and draft DA PAM 405-45.